



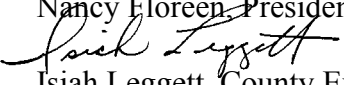
OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 15, 2010

TO: Nancy Floreen, President, County Council

FROM:  Isiah Leggett, County Executive

SUBJECT: FY11 Operating Budget and FY11-16 Public Services Program

I am pleased to transmit to you, in accordance with the County Charter, my Recommended FY11 Operating Budget and FY11-16 Public Services Program.

This budget reflects the concerns and policy issues that I heard County residents express during the many Town Hall Meetings, Budget Forums, On-Line Chats, and other community meetings I have held over the past year to better understand the hopes, expectations, and needs of the people of our County.

Consistent with existing resource constraints, this budget supports my priority policy objectives:

- Children Prepared to Live and Learn
- Affordable Housing in an Inclusive Community
- Safe Streets and Secure Neighborhoods
- A Responsive and Accountable County Government
- Healthy and Sustainable Communities
- An Effective and Efficient Transportation Network
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

As with each of the operating budgets that I have transmitted to the County Council, my top priorities have been to produce a fiscally sound and sustainable budget that preserves public safety services, education, and the County's safety net for the most vulnerable.

While it has been difficult in each of these years to balance these priorities, the FY11 budget has been uniquely challenging because of the continued, sharp decline in tax revenues and State aid, and the severe impact of the Great Recession on our residents. In addition, we have responded to other crises such as the H1N1 outbreak and snow removal from this winter's historic blizzards. While this budget responds to critical priorities, it is necessary for us to make very deep reductions in existing County programs, services, and staffing levels. Other reductions adversely impact employee compensation. Despite these serious fiscal constraints, our approach to this budget focuses not only on protecting essential services, but also on identifying long-term cost savings to minimize the burden on taxpayers and alleviate the negative impact on direct services required by our residents.

Economic Context and Fiscal Consequences

I said three years ago, even before the current economic downturn, that County Government spending was not sustainable. The combination of a growing workforce, expanding services, and sharply receding local revenues has created a long-term structural deficit in the County budget. Since taking office, I have made restoring fiscal prudence a major priority of my administration. Responsible fiscal practices are essential and the foundation for all else that government must do to protect and serve our nearly one million residents. To respond to this challenge, we established several cost containment, efficiency and productivity improvement actions, and cost reduction strategies that have dramatically slowed the rate of growth in the operating budget and have saved County taxpayers millions of dollars.

In my first budget as County Executive, the County faced a \$200 million budget shortfall in FY08. We reduced the tax supported rate of increase in spending by County Government from 14.1 percent in FY07 to 6.9 percent in FY08. In FY09, as a result of a plummeting real estate market and the economic downturn, our projected shortfall increased to \$401 million. In response to this challenge, we imposed a hiring freeze, produced midyear savings of over \$30 million, abolished over 225 positions, implemented a retirement incentive program, and slowed the rate of growth in the County Government to 1.6 percent. In the FY10 budget, we closed a projected gap of \$590 million without a tax increase, by reducing costs, abolishing nearly 400 positions, and eliminating general wage adjustments for most employees. In developing the FY11 budget, we faced a daunting and historic projected gap of nearly \$780 million, which my proposed budget fully closes.

The cumulative amount of budgetary shortfalls that I have resolved in the four budgets that I have developed and recommended to the Council is nearly \$2 billion. That, simply put, is unprecedented.

Before the economic recession, Montgomery County Government's tax supported budget had grown significantly including 11% in FY05, 11.4% in FY06, and 14.1% in FY07. These increases were supported by growing income tax revenues (over 21% in FY07 alone), transfer and recordation taxes, and property tax revenues. However, with a doubling in the local rate of unemployment, declining residential and commercial development activity, and continued challenges for the local business community, income tax revenues and almost all other tax revenues have dropped sharply. This has forced Montgomery County to restructure our expectations and our operations to align our expenditures with the new economic realities.

Closing the Gap and Creating a Sustainable Budget

To address the current year's fiscal crisis, I developed a multi-pronged strategy including:

- Directing all departments to meet aggressive cost savings targets in FY10 (including two different mid-year savings plans that totaled nearly \$100 million) and in FY11 to identify and implement long term savings;
- Coordinating approximately 20 focus groups involving all directors, key Council staff, Management Leadership Service, and selected outside agencies collaboratively developing ideas for structurally improving the County's budget. Through this effort, a number of cost saving measures were implemented and several other potential solutions were identified for FY12 and beyond;
- Continuing the hiring freeze instituted over two years ago, and reducing current revenue funded expenditures in our capital budget;
- Meeting and coordinating our efforts with the principals and employee representatives of all County agencies;
- Negotiating and renegotiating bargaining agreements with our employee unions; and
- Establishing a freeze in FY10 on County contract procurements and liquidation of many outstanding contractual obligations.

To address our long-term budget challenges, I have reached out to our partners in Montgomery County Public Schools (MCPS), Maryland-National Capital Park and Planning Commission (M-NCPPC), Montgomery College, and Washington Suburban Sanitary Commission (WSSC) to establish a cross-agency committee that will be charged with establishing a number of cross-agency work groups to discuss and develop resource-sharing ideas and implementation strategies in areas such as information technology, space utilization, fleet, utilities, facilities planning, design, construction and maintenance, training, and other administrative services.

Because we are projecting a long term, structural imbalance between County expenditures and resources, our solutions must be weighted toward identifying long-term savings, sustainable and stable revenues, and adopting efficient, productive, and cost-effective business practices.

Eighty percent of the County budget goes toward compensation – wages and benefits for County employees. To continue my efforts to create a sustainable budget for the long term, I am recommending the abolishment of over 450 positions in County Government in FY11. Over 230 of these positions are filled. We will make every effort to appropriately place the affected individuals in available vacant positions. To alleviate the impact of these position reductions, I am recommending that the County Council adopt a Retirement Incentive Program (RIP). The program will be offered to employees in all occupational classes in which there will be a reduction in force (though capped at the number of position abolishments in that class). All positions vacated through the RIP will be permanently abolished to ensure that the savings are ongoing.

For FY11, I am recommending that we continue these actions and also implement a ten day furlough (80 working hours) of non-public safety County Government employees. I am recommending that the other County funded agencies also consider this cost reduction strategy in FY11, though such a decision is subject to the judgment of the governing board of each agency. The details of how the County Government furloughs will be implemented will be discussed more fully with the appropriate bargaining units.

My recommended budget does not contain any pay increases for County Government employees¹. To promote equity among public employees, I recommend that the governing board of the other County funded agencies support this same approach to compensation in FY11. I regret that I have to take this action because I know how hard County employees work, how seriously they take their service to the public, and the difficult conditions under which they must provide public services. Nonetheless, under the dire economic and fiscal circumstances we are facing there really is no alternative, except further reductions in public safety and safety net services and further layoffs of County employees. Not only is funding these pay improvements not affordable, I do not consider it to be appropriate, fair, or good public policy to award pay increases to some employees while we are substantially reducing direct services to the community and laying off other public employees.

I realize that all of these compensation related actions will result in a financial sacrifice for County employees and their families. However, I make them after careful analysis and reflection upon the alternatives available to me to construct a budget that is fair to our residents and employees. I also want to add that whatever I ask of County employees, I will match, and so will my entire management team and all senior managers.

Past cost reduction efforts have focused on preserving direct services to the maximum extent possible. Regrettably, given the numerous rounds of expenditure reductions we have experienced in the last three years, this is no longer possible. This budget will include numerous reductions in County services across all programs including Health and Human Services, Public Safety, Transit, Libraries, Recreation, Technology Services, and other County services and functions. I have not exempted my own Office from these reductions: The Offices of the County Executive will be reduced by 26% in the FY11 Recommended Budget.

To those who may object to these reductions, I have a simple message: I do not like these any more than you do. Hard choices must be made, and not just talked about, in this difficult economic and fiscal environment.

Due to the continued severity of the current economic recession and the loss of over \$320 million in tax and other revenues anticipated for this budget in FY10 and FY11, it is necessary to again recommend budgetary strategies that I have strongly resisted in the past. In this budget, I am reluctantly recommending that we temporarily reduce our tax supported reserves from 6 percent of resources to 5 percent. This will free up nearly \$37 million in resources that I am recommending to help balance the FY11 budget and sustain existing critical services. The reserves used in FY11 should be replaced as quickly as possible, back to the 6 percent policy level. Adhering to consistent and strong reserve policies is a key element in maintaining the County's AAA bond rating that we have received from all three credit rating agencies.

¹ This includes the arbitrated award for the Fraternal Order of Police, Lodge #35 and the contract with the International Association of Fire Fighters, Local #1664. The total tax supported cost in FY11 of funding step increases (also called service increments or merit pay increases) for all agencies is \$34.7 million including \$5.6 million for Montgomery County Government; \$25.9 million for Montgomery County Public Schools; \$2.3 million for Montgomery College; and \$900,700 for the Maryland National Capital Park and Planning Commission. Additional details of the cost of implementing the IAFF and FOP agreements and other compensation and benefit costs can be found in the Workforce/Compensation section of this budget document.

Because of the dramatic revenue reductions in the current fiscal year and the record cost of snow removal which is currently estimated to exceed \$60 million for the current year, we will withdraw approximately \$102 million of the nearly \$120 million in the County's Rainy Day Fund (Revenue Stabilization Fund) in order to preserve the County's general fund in a positive position at the end of FY10. These funds will be replenished in FY11 in order to keep the County's reserves at the five percent level. Our experience in this fiscal year has demonstrated the wisdom of maintaining strong reserves. If the Rainy Day fund had been accessed in the past for other priorities, it would not have been available in the current fiscal crisis.

I have also found it necessary to again seek a waiver of the State-required maintenance of effort in local funding of K-12 public education². This is necessary to preserve vital services throughout the County Government and to provide a balanced and sustainable budget. We have communicated throughout this process with the Superintendent and the members of the Board of Education. We are near completion in the General Assembly with a legislative remedy to the FY10 waiver of the Maintenance of Effort and will continue to press for an FY11 remedy to this State mandate. I recommend reducing the local contribution by approximately \$137 million below the Board's request and fund 96 percent of the Board's requested budget (excluding requested funding for the Reserve Account for Future Obligations).

I am recommending that we defer an increase in pre-funding for Retiree Health Benefits in FY11. While I remain committed to pre-funding this outstanding liability and seeking ways to minimize the burden on taxpayers, it will be necessary to defer funding for retiree benefit pre-funding in FY11, so that we can redirect approximately \$64 million in projected increases to preserve existing services.

In order to avert more serious reductions in first response Fire Rescue and Emergency Medical services, I am again urging the County Council to institute an Emergency Medical Services (EMS) transport fee to provide \$14.7 million in additional resources to sustain and grow our Fire and Rescue Services in the coming years. The projected level of tax-supported resources for the Fire Tax District Fund simply cannot meet the demands for apparatus management; volunteer enhancement, recruitment, and retention; performance based initiatives for the volunteer fire rescue departments; additional staffing for new stations opening in West Germantown, East Germantown, Travilah, Clarksburg, and other locations around the County; additional staffing to implement four-person staffing of apparatus; and compensation and benefits for our firefighters and emergency medical technicians.

Three years ago, I proposed that Council adopt an EMS transport fee. By delaying approval of the authorizing legislation for this fee, we have literally left tens of millions of dollars in insurance reimbursements uncollected. This is funding which could have been used to pay for much needed improvements to the County Fire and Rescue Services and which is sorely needed for the future.

This EMS Fee will be billed directly to an individual's health insurance, Medicaid, or Medicare. No County resident who is unable to pay will have any out-of-pocket expense for transport to the hospital. All of our surrounding jurisdictions have implemented similar programs with no impact on the willingness of individuals to call for emergency services. The program also will be structured to have no impact on the development and growth capabilities of local volunteer fire and rescue departments.

Other jurisdictions have used these resources to improve service and save lives with no adverse effects. We should do the same, too.

² Maintenance of Effort (MOE) is a State mandate that requires that local funding, on a per pupil basis, must remain at least constant from one year to the next in order to qualify for an increase in certain categories of State K-12 Education Aid.

Because of financial burdens on County households as a result of the economic downturn, I once again made an early commitment to remain within the County charter limit³ on property taxes for the FY11 budget. As was true for last year's budget, this budget keeps faith with that commitment. The property tax for each owner-occupied residence will include a credit of \$693 to lower the burden on homeowners and maintain a progressive property tax structure in the County.

Finally, and as a last resort to avoid even further reductions in County services or layoffs of County employees, I am recommending an increase in the County's energy tax to raise an additional \$50 million.

The County's energy tax is actually a tax on fuel oil, natural gas, and electric utility providers which is passed on to all utility customers. Because the energy tax is a broad-based tax, its impact on families is reduced by the fact that it is paid by businesses and households, and all levels of government, including federal agencies located in the County (that currently do not pay any other major County tax). Additionally, the energy tax is a consumption tax based on energy usage. It is not based on the overall size of the utility bill or the cost per unit of energy used as billed to the consumer. Therefore, the amount of the tax can be lessened by reduced energy usage. Based on existing usage patterns for the average homeowner, this increase will mean approximately an additional \$2.90 per month. I am also recommending additional funding in the Health and Human Services budget for the County's Energy Assistance Program to minimize the impact to low-income households.

Water and sewer rates will increase by 8.5 percent in FY11 in accordance with the budget recently approved by the WSSC. Details on fee increases are provided in the Revenues section of my Recommended FY11 Operating Budget.

Due to these efforts, the cooperation and collaboration of our employee representatives and the governing boards and principals of other agencies, and other solutions to be discussed below, we have closed this budget gap and reversed the growth trends in budget expenditures that occurred before I took office, to an actual decrease in the County Government tax supported budget of 6.1 percent.

- I am recommending to the County Council, that tax-supported funding for Montgomery County Government decreases by \$76.5 million – a 6.1 percent decrease from the FY10 Approved budget.
- The overall tax-supported budget of \$3,681,109,876, will be down by \$165,791,330 from the FY10 budget. This represents a 4.3 percent decrease.
- Tax Supported funding for the MCPS will decrease by \$79.5 million – a 3.9 percent decrease from FY10. However, if the FY10 “debt service reimbursement”⁴ amount is excluded, MCPS funding for educational programs in FY11 will be the same as in FY10. The budget funds 96 percent of the Board of Education request when adjusting for the Board's requested increase to its reserve account for future obligations.

³ Section 305 of the County Charter limits the growth in real property tax revenues in a fiscal year to the rate of inflation, excluding new construction, development districts, and other minor exceptions. The Council may override this limitation through the unanimous vote of nine Councilmembers.

⁴ The FY10 Approved Operating budget for MCPS included \$79.5 million as a debt service reimbursement to Montgomery County Government for the interest and principal payments due from school construction projects. This amount is not included in the FY11 Recommended budget. Therefore, an accurate comparison of the budget should remove this amount in FY10.

- Funding for Montgomery College decreases by \$8.3 million, a 3.8 percent decrease.
- Funding for the M-NCPPC is reduced by \$15.1 million, a 13.5 percent decrease.
- I recommend a total County budget (which includes debt service, grants, and enterprise funds) for FY11 of \$4,304,288,414, down \$169.7 million from the FY10 Approved Budget – a 3.8 percent decrease. **This is the only time the annual County Budget has been reduced since the adoption of the current Charter in 1968.**

Unfortunately, our efforts at expenditure restraint are not completed with the FY11 Operating Budget. Given the severity of the current recession and subsequent declining tax revenues, FY11 and perhaps ensuing fiscal years will require continuing restructuring of County expenditures, especially personnel costs which comprise 80 percent of County costs.

Assuming that you approve my FY11 Budget as recommended, with all of the very difficult cost reductions and other budgetary solutions, there will still be a substantial budgetary gap in FY12. This projected gap of over \$200 million is due to the significant ongoing costs of funding County services, the reduction in tax revenues related to the recent economic recession, and the scheduled expiration of federal economic stimulus funds at the State and Local level that have provided over \$50 million in funding for MCPS. Even with an economic recovery, there will be a lag in the increase in income tax and other revenues as our collections catch up with the economic recovery.

The outlook on the economy remains highly uncertain, including the prolonged recession in the local real estate market and persistently high unemployment. In addition, final decisions by the General Assembly on the State's budget may further affect our capacity to provide local services. Therefore, resorting to one time solutions, quick fixes, and adding continuing costs back into the budget will only exacerbate the structural budget gaps long into the future rather than addressing them now through real, long-term solutions.

I realize that our approach to balancing the budget should not strictly be a matter of cost reduction, but we should make every effort to make our operations more efficient, productive, and cost effective. To accomplish these objectives, I have instituted several measures to make Montgomery County Government even better and more efficient in how we operate and provide services to the Community.

My CountyStat initiative has made significant progress in tracking the County's performance in addressing challenges using real-time data and holding departments and agencies accountable for the results in a number of operational and policy areas. The CountyStat program has provided a forum for ongoing monitoring and measurement of the effectiveness and efficiency of County Government services. This program has been a major success in improving the responsiveness and efficiency of the County Government.

CountyStat has added value by enforcing my philosophy of "results-based accountability" and empowering the Departments to make "data-driven" decisions. Although building upon previous "stat" programs, CountyStat represents a further evolution of this model by focusing on customer results, performance, and long-term strategies with a focus on effectiveness and efficiency. Specific examples of CountyStat's impact include:

- Analysis of overtime pay for public safety agencies and transportation which helped departments cut overtime hours by 16% and save the County \$7.1 million in overtime pay in 2008 with \$3.5 million in savings in Fire and Rescue Service alone. In 2009, departments not only sustained these overtime cuts, they trimmed overtime costs further resulting in an overtime reduction of \$735,000 or 19%.

- Initiated and managed a paper reduction initiative that in FY10 saved the County approximately \$1 million in paper, printing, and related costs while enhancing the County's commitment to environmental stewardship.
- Through examination of existing practices, inefficient programs and processes, such as distribution and management of cell phones, were closely reviewed resulting in savings across County departments.
- Continued managing departmental Performance Dashboard in order to monitor and report the County's successes and challenges, and issued the first progress report on the County's Community Indicators that represent a high-level barometer of County performance benchmarked against a regional and national grouping of comparable jurisdictions.
- Provided strategic and analytical analysis of a number of critical issues, programs, services, and policies including FY10 and FY11 cost saving ideas generated in "focus groups."

In my first year as County Executive I formed a task force to review the structure of County Government to determine what changes were necessary to improve the efficiency and effectiveness of County Government. The recommendations of this task force resulted in several changes to the structure of the County Government, including the creation of the Department of General Services and the Department of Transportation to better focus efforts of County facilities management and projects and transportation projects and services.

In this budget we are continuing our efforts at restructuring the County Government to improve its responsiveness and efficiency. The Department of Correction and Rehabilitation, the Department of Public Libraries, and the Recreation Department have implemented significant internal reorganizations to efficiently consolidate functions, reduce costs, and preserve service levels. In addition, I am recommending consolidating the staffing for the Ethics Commission into the County Attorney's Office and shifting the Equal Employment and Diversity Management Office from the Office of Human Resources to the Office of Human Rights. Both of these reorganizations took advantage of existing staffing resources to reduce costs and leverage the efforts of County staff to produce better outcomes for the community. The Regional Services Center budget is also substantially restructured to reflect the improvements and streamlining of constituent services through the implementation of the 311 Call Center in FY10 and also refocus their core activities as liaisons between the community and County Government.

The implementation of the centralized 311 Call Center and Constituent Relationship Management system (CRM) in this current fiscal year will significantly enhance community services. Residents are now able to call a centralized call center to respond to their information or service requests. Before the end of this fiscal year, residents will be able to call one three digit number (311) to access County Government non-emergency information and services and use the 311 website to directly enter and track service requests. In addition to allowing easier access to government information and services, MC311 has been implemented in a cost effective manner by consolidating five current call centers housed in various departments, and centralizing the information and referral calls currently received by each of the Executive Branch departments and offices. In the longer run, the information obtained from the CRM system, combined with financial information from the Enterprise Resource Planning (ERP) system, will provide us with important tools to make more informed decisions about how to best use our scarce resources.

We are also continuing to take steps to reevaluate our business processes and modernize our Core Business Systems to improve the efficiency, effectiveness, and responsiveness of the County Government. The Technology Modernization project will provide resources to develop an ERP system project that will provide a significant upgrade to the County's financial, procurement, human resource, and budgeting systems and will streamline existing business processes. The ERP system is critical to our ability to have real-time, useable, financial data to improve fiscal analysis, promote transparency in our financial affairs, and improve fiscal controls – essential tools for managing during these challenging fiscal times. The Technology Modernization capital project will also provide resources to continue to replace the County's manual employee timekeeping system with an automated, web-based system that will provide greater efficiency, functionality, and reporting features.

Final Thoughts

Despite the extraordinary challenges we are currently facing, I remain very optimistic about the future of our County. The quality and scope of services we offer our residents in the areas of education, affordable housing, public safety, and health and human services are still among the very best in the nation. We have made significant advancements in working collaboratively together at the local level among government agencies and with our employee representatives. Our efforts locally to update our land use plans, establish and maintain prudent financial management, take advantage of the emerging green energy market, and support the rapidly growing bio-tech market are positioning us well for the future.

The recently approved White Flint Master Plan and the pending sector plan for the Gaithersburg West will significantly contribute to the growth in the local economy through job creation, residential and commercial development, support for transit-oriented development, and other improvements in the quality of life for County residents. We are actively and aggressively marketing Montgomery County as a business destination and have several pending offers of economic assistance to retain and recruit quality business to Montgomery County. With the Council's support, we are well on our way in implementing the Smart Growth Initiative which is key to developing the Shady Grove Sector Plan and improving the quality and safety of County facilities for the Police Department, Fire and Rescue Service, MCPS, and the M-NCPPC.

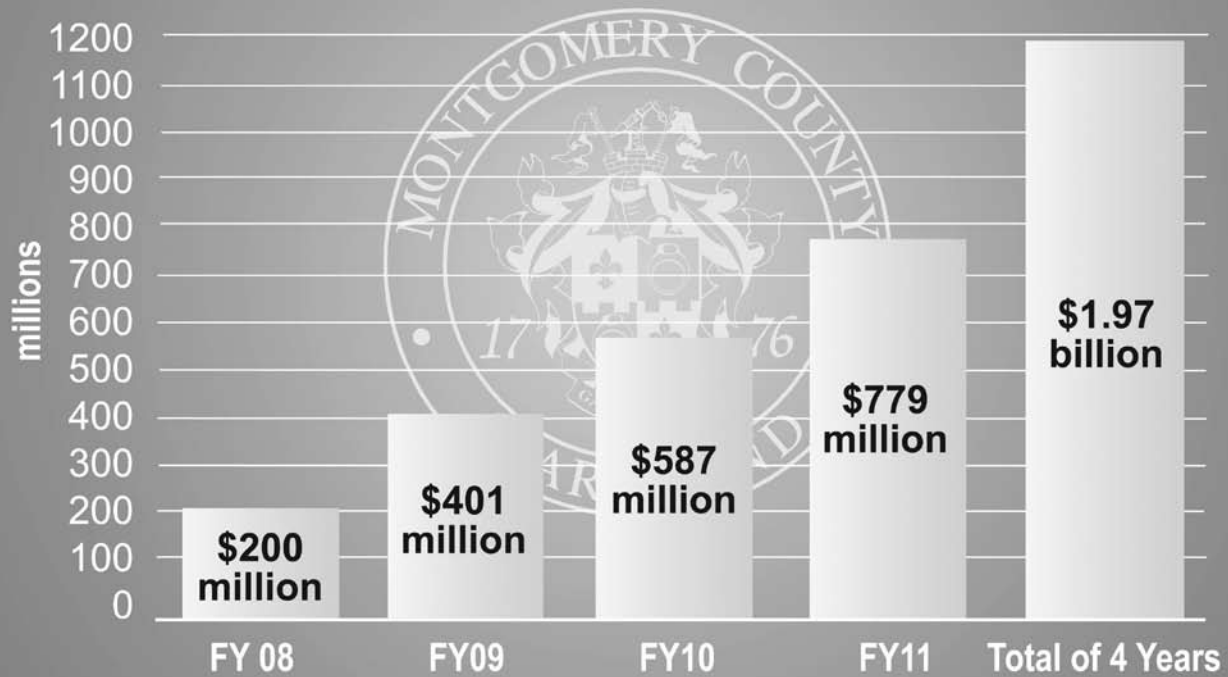
I want to thank those who contributed to the development of this spending plan including the Board of Education and Superintendent at Montgomery County Public Schools; the Trustees and President of Montgomery College; the Chair of the Maryland-National Capital Park and Planning Commission and the Planning Board; the Commissioners and General Manager of the Washington Suburban Sanitary Commission; individual residents, as well as members of boards, commissions, and committees; community-based organizations; and directors, employees, and employee representatives of departments in all agencies.

Throughout this budget process we have met with and conferred with the principals and board members of all County agencies, as well as with the representatives of employee organizations, to brief them on the nature and magnitude of our fiscal challenges and to jointly explore solutions. I am proposing that we continue this collaborative work throughout the process of adopting the FY11 budget and in crafting the FY12 operating budget. The challenges we will face in FY12 will be as great, if not greater, than they are for FY11. Many of the potential solutions we considered for FY11 were simply not possible to implement in the next fiscal year because of the numerous legal, policy, staffing, and other resource issues. However, we must take advantage of every opportunity to produce savings and preserve and enhance services for the residents of this County despite the resistance that we will encounter from settled ways of doing business.

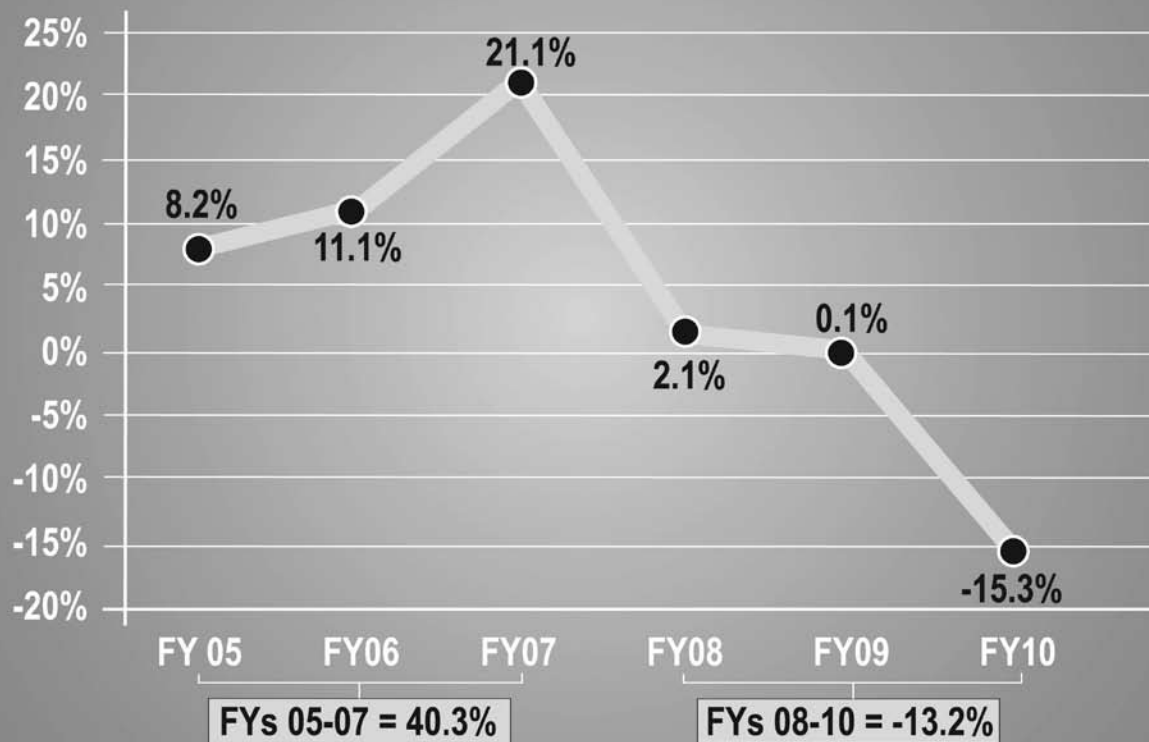
Highlights of my recommendations are set forth on the following pages and details can be found in the Departmental sections. The full budget can be viewed on the County's website at www.montgomerycountymd.gov/omb. Details of the budget requests for MCPS, Montgomery College, M-NCPPC, and WSSC can be seen in the separate budget documents produced by those agencies.

I look forward to working with the Council over the next two months on spending priorities and policy issues that arise and have asked Executive Branch staff to assist you in your deliberations.

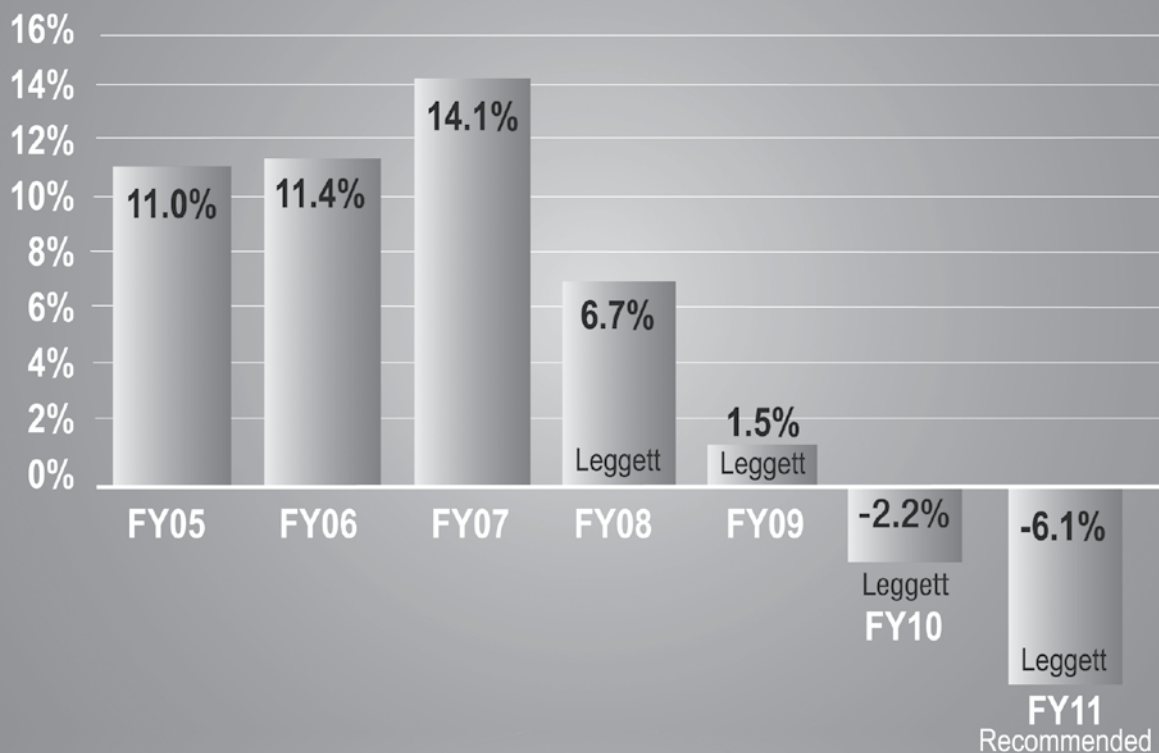
Budget Shortfalls Closed by County Executive



Montgomery County Income Tax Revenue Annual Rate of Growth

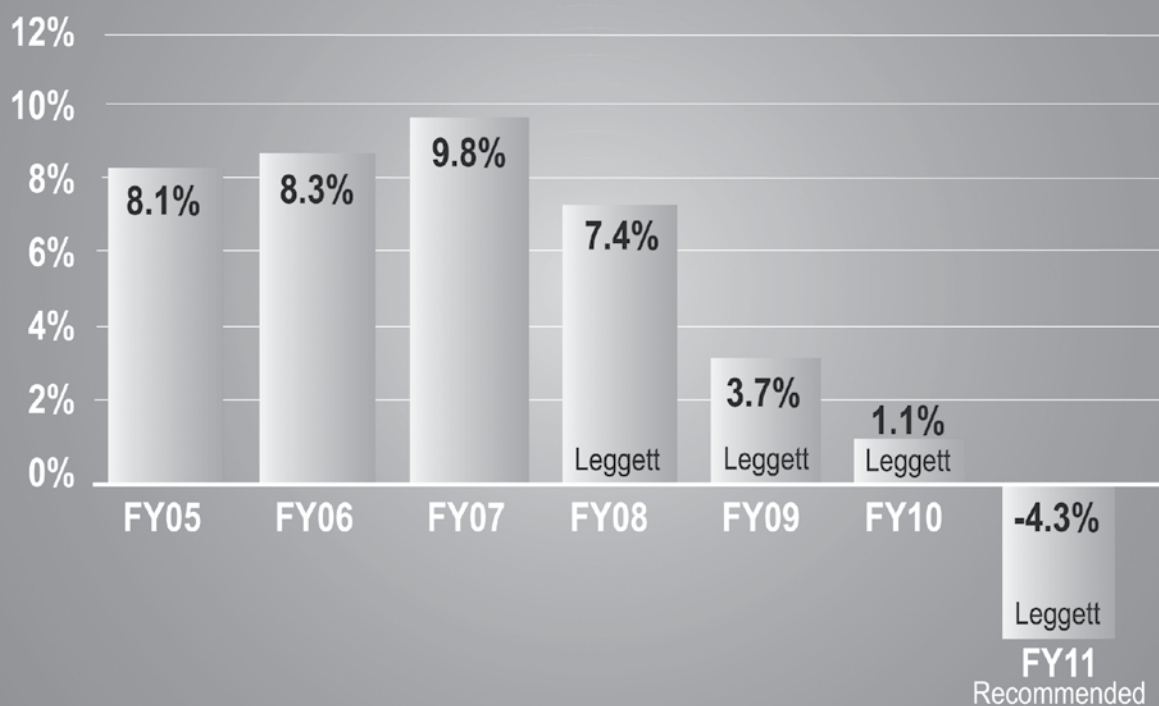


County Government Rate of Growth (Tax-supported)



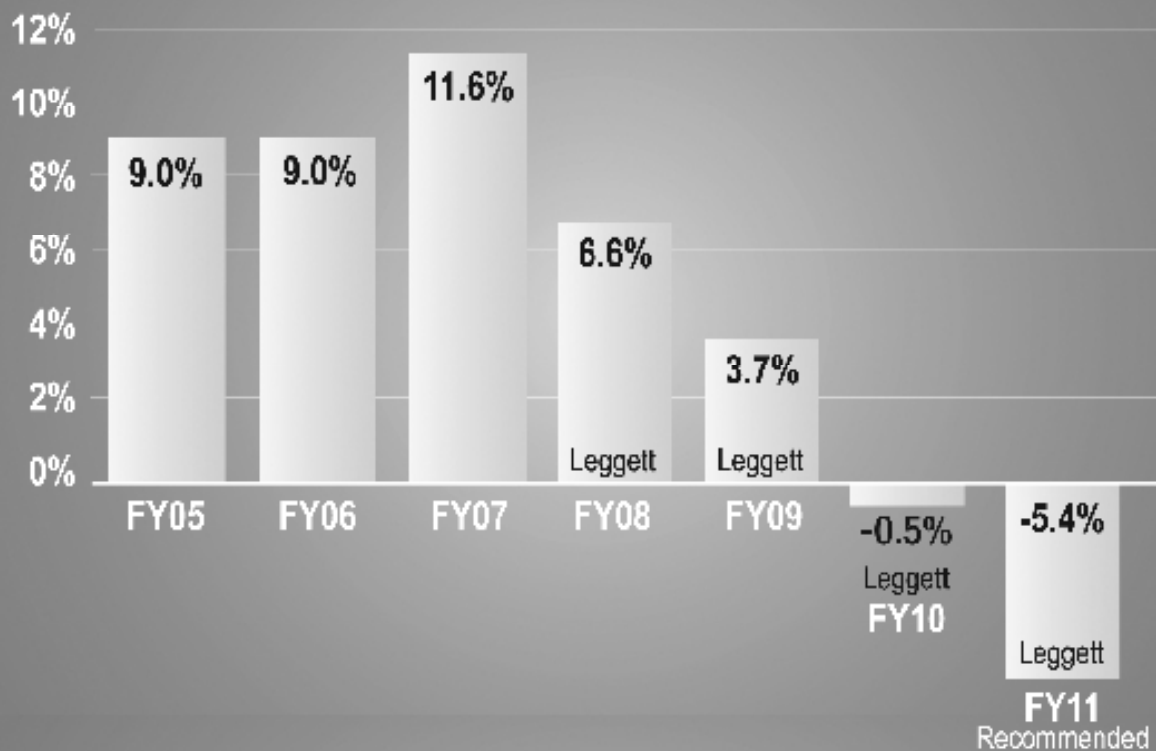
Total Rate of Growth

(All agencies, tax-supported including debt service)



County Government Rate of Growth

(All funds, including debt service, grants, and enterprise funds)



Total Rate of Growth

(All agencies, including debt service, grants and enterprise funds)

